

**BOARD OF INVESTMENT TRUSTEES
MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS**

MINUTES – OPEN SESSION

June 2, 2006

101 Monroe Street, 15th floor
Rockville, Maryland

Board Members Present:

Tim Firestine, Chair
Gino Renne
Sandra Kaiser
Lodge Gillespie
Meg Menke
Walter Bader
Steve Farber
Cora Ingram
Kelda Simpson
Joe Adler
Beverley Swaim-Staley
Jeff Buddle
Sharon Cayelli

Staff:

Linda Herman
Joanne Tsai

Others Present:

Mark Brubaker, Wilshire Associates
Mike Dudkowski, Wilshire Associates
Amy Moskowitz, General Counsel to the Board

CALL TO ORDER

Mr. Firestine called the open session of the Board to order at 8:35 a.m.

APPROVAL OF MINUTES

The Board approved the minutes of the March 3, 2006 open session.

INVESTMENT COMMITTEE REPORT

Ms. Simpson presented to the Board the report on the Investment Committee meeting and the items recommended for Board action.

Asset/Liability Analysis – Rebalancing Proposal – (Attachment B-5): Ms. Herman discussed the implementation of Wilshire's recommendation to increase the international equity allocation from 15% to 20% and reduce the allocation to domestic equities to 40% from 45%. Mr. Brubaker discussed the recommendation noting that it was part of Wilshire's asset/liability study presented to the Board in December 2004 (the Board had placed implementation on hold pending

possible searches being conducted for international and emerging markets managers which were completed in the fall of 2005). He noted that increasing the international exposure brings the overall equity structure closer to the composition of the benchmark, adds diversification, and increases the potential for additional return. After discussion, the Board unanimously approved the following resolution:

0606-01 *Resolved, That the Board approves changing the Asset Allocation Policy to reflect a 20% allocation to International Equities and a 40% allocation to Domestic Equities to be implemented over the next six months as presented and that the custom benchmark weightings be changed as of September 30, 2006.*

Retirement Savings Plan – Fund Lineup: Ms. Simpson discussed Fidelity’s announcement that they will begin offering two new Freedom Funds with target retirement dates of 2045 and 2050 in June. The Retirement Savings Plan currently offers ten Freedom Fund options with target dates from 2000-2040. After discussion, the Board adopted the following resolution:

0606-02 *Resolved, That the Board approves adding the two new Freedom Funds as both default fund and investment options offered within the Retirement Savings Plan fund line-up.*

ERS & RSP – Legislation: Ms. Herman commented on the Uniform Management of Public Employee Retirement Systems Act (UMPERSA) and the provisions adopted by the State of Maryland. The Maryland law requires local public pension systems that existed prior to June 30, 2005 to certify they are in compliance or provide an explanation of areas of non-compliance. Board counsel recommends the Board seek amendment of specific sections of the County Code related to the investment of funds for both the ERS and the RSP to conform to UMPERSA. After discussion, the Board approved the following resolution:

0606-03 *Resolved, That the Board approves the amendments to the County Code as presented and requests the amendments be transmitted to the County Executive for transmittal to the County Council.*

Semi-Annual Risk Report: Ms. Herman discussed the results of the semi-annual risk report and quarterly reviews of the investment managers’ portfolios for compliance. Areas of non-compliance with Board established guidelines, included securities held by BlackRock and JP Morgan due to downgrades. The Board approved the following resolution:

0606-04 *Resolved, That the Board approves permitting BlackRock and JP Morgan to hold the downgraded securities of Norske Skog Canada, Navistar, and Georgia Pacific.*

Currency Overlay Manager Search: Ms. Herman reviewed the background information presented on the use of currency management strategies as a potential added source of diversification and return, historical performance of currency managers, and operational and funding issues. Mr. Dudkowski updated the Board on the results of the search process including the recent departure of the lead portfolio manager for the Wellington product. Staff, and Wilshire, recommended the selection of a manager be tabled until the Investment Committee reviews the impact of the changes at Wellington.

Fund Performance Review and Investment Outlook: Ms. Herman updated the Board on the Fund's performance through April and discussed the changes in interest rates and the impact on the TIPS market. Mr. Brubaker discussed highlights of the financial markets during the last quarter and noted the ERS' total fund performance for the one year ended March 31 ranked in the 36th percentile of Wilshire's public fund universe. He noted the three year performance ranks at the 17th percentile or better than 83% of peers. The Board reviewed the performance results and recent updates for the funds offered in the Retirement Savings Plan and Deferred Compensation Plan. Mr. Brubaker discussed the recent performance of the Fidelity Growth and Income Fund offered in the Retirement Savings Plan.

ADMINISTRATIVE COMMITTEE REPORT

Ms. Kaiser presented to the Board the report of Administrative Committee activities and items recommended for Board action.

UMPERSA –State Report (Attachment C-1): Ms. Moskowitz presented the draft response to the State Joint Committee on Pensions' request regarding certification that the Montgomery County Employees' Retirement System and the Retirement Savings Plan comply with Sections 6, 8, 10 of the Uniform Management Public Employee Retirement System Act (UMPERSA). The Board approved the following resolution:

0606-05 *Resolved, That the Board approves the response to the State's Joint Committee on Pensions.*

Outside Legal Counsel – RFP Results (Attachment C-2): Ms. Herman updated the Board on the results of the RFP issued for outside legal services. She discussed the expertise provided by each firm, fees, and other issues. After discussion, the Board approved the following resolution:

0606-06 *Resolved, That the Board directs the County Attorney to enter into agreements with Groom Law Group, Morgan, Lewis & Bockius and Mayer, Brown, Rowe & Maw on behalf of the Board for services outlined in the memorandum presented.*

Annual Participant Survey – RSP (Attachment C-3): Ms. Herman presented the draft participant survey which will be sent to all Retirement Savings Plan participants via an online survey. The results of the survey will assist the Board in evaluating the participant's use of the web sites, investment counseling service, and opinions on fund offerings and fees. The Board voted to table issuing the survey until work on the online system is completed and additional comments collected.

Resolution – ERS Budget Allocation: Ms. Kaiser presented a resolution to approve an allocation adjustment for the ERS budget of up to \$12,000 (\$6,000 per agreement) from salaries and benefits to professional services to cover the cost of outside legal counsel review of the currency manager agreements. After discussion, the Board approved the following resolution:

0606-07 *Resolved, That the Board approves an allocation adjustment of up to \$12,000 from salaries and benefits to outside legal services, with no increase in the Employees' Retirement System's FY 06 budget*

previously approved by the Board, to be used to pay for the services of outside legal counsel in reviewing the currency manager agreements.

The Board discussed the agenda for the annual retreat and items on the workplan.

There being no further business of the Board, the open meeting session was adjourned at 11:45 p.m.

Respectfully submitted,

Gino Renne, Secretary